

**MINUTES  
REGULAR MEETING  
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**Friday, May 15, 2009  
8:30 A.M., MST**

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Michael Townsend, Chair of the ASRS Board, called the meeting to order at 8:36 AM, MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

**1. Call to Order; Roll Call; Opening Remarks**

Present: Mr. Michael Townsend, Chair  
Mr. Dave Byers, Vice-chair  
Mr. Chris Harris  
Mr. Jaime Gutierrez (via telephone)  
Dr. Keith Meredith  
Mr. Larry Trachtenberg  
Mr. Steve Zeman  
Mr. Tom Connelly

Absent: Mr. Jim McLaughlin

A quorum was present for the purpose of conducting business.

**2. Approval of the Minutes of the April 17, 2009 Regular Session of the ASRS Board**

**Motion:** Mr. Steve Zeman moved to approve the minutes of the April 17, 2009, Regular Session of the ASRS Board.

Mr. Dave Byers seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

**3. Presentation, Discussion and Appropriate Action Regarding Mr. John Gustafson's Long Term Disability (LTD) Appeal Rehearing**

Mr. Townsend noted Mr. John Gustafson believes he deserves Long Term Disability (LTD) benefits because the Ombudsman's report and the Department of Corrections (DOC) asserts he should receive benefits. Mr. Townsend stated the Legislature did not intend for anyone to get caught in a transition between Mr. Gustafson's previous plan, the Corrections Officers Retirement Plan (CORP) and the ASRS, and now the Board must make a determination in this case.

Mr. Byers asked how the ASRS views Mr. Gustafson's 12 months of service, since DOC has another view. Mr. Thomas McClory, Assistant Attorney General, said statute states a member must be in active status with the ASRS for 12 months prior to being allowed long-term disability. Mr. Gustafson was deemed medically disabled by his doctor at 10 ½ months, and obtained an additional 1 ½ months of service, totaling to 12 months, via donated leave time. That additional 1 ½ months does not qualify as time to be considered for receipt of LTD since Mr. Gustafson ceased working at 10 ½ months.

Mr. Larry Trachtenberg asked for confirmation that CORP has no long-term policy. Mr. McClory said that was correct; under CORP, Mr. Gustafson would have stopped receiving disability payments at age 65.

Dr. Meredith said the major contention appears to be the last 1 ½ months of coverage, where Mr. Gustafson was covered by donated leave. Mr. McClory reiterated statute requires a member be actively contributing for at least 12 months prior to disability; Mr. Gustafson's disability was at 10 ½ months. The intent of statute was to prevent abuse of the system, where, for example, a member might only work a few months then collect disability payments for 30 years or more.

Ms. Karyn Klausner, General Counsel for the Director of DOC, commented on the letter written to the Ombudsman by her predecessor, Ms. Susan Rogers. Ms. Klausner said she believes the letter was not biased regarding Mr. Gustafson. Mr. McClory pointed out that Ms. Rogers was not an Assistant Attorney General; she was an employee of an agency that it appears did not give Mr. Gustafson adequate advice at the time he was facing his critical life decision. He stated that though not an expert on ASRS statutes, Ms. Rogers subsequently tried to argue that Mr. Gustafson should be on the ASRS LTD plan. She was not versed in the ASRS plan and she was not a representative of the ASRS. The DOC was, Mr. McClory argued, possibly attempting to justify the errors that the DOC made when they had a personnel matter involving Mr. Gustafson and some very difficult choices. They failed to contact the ASRS and are now trying to figure out a way to get out from under a difficult problem for their former employee.

Ms. Klausner stated she did not feel Ms. Roger's report showed any cover-up effort. Mr. Byers said the ASRS requested to meet with DOC last month, but the request was rejected. Mr. Patrick Klein, Assistant Director, External Affairs Division, said that Mr. Sam Keomaka, Human Resources Director at DOC told him Ms. Klausner and the Director of DOC had no interest in re-visiting this issue with the ASRS. Ms. Klausner said she was not aware of that and has never met Mr. Keomaka.

Ms. Klausner noted she only came to the ASRS Board meeting to observe how the Board would interpret statute because her predecessor had made an analysis. She said she did not intend to speak, nor did she represent Mr. Gustafson.

Ms. Klausner said she was not there to advocate for Mr. Gustafson, nor was she attending on behalf of her Director.

Mr. McClory recalled that when this item was discussed at last month's Board meeting, at least one ASRS Board member said too much time elapsed since the April 18, 2008 Board decision and he voted not to reconsider the issue. Mr. McClory said Mr. Chris Munns was in attendance from the Attorney General's office and was available to advise regarding the time lapse.

Mr. Munns said the Administrative Law Judge decision to deny Mr. Gustafson ASRS LTD coverage was issued in March 2008, the ASRS Board accepted the decision in April 2008 and issued its order; at that point, the appeal timelines began. The Board could have ordered its own reconsideration of that order within 10 days and changed or modified it. Mr. Gustafson could have requested a rehearing from this Board within 35 days or chosen to appeal in court, but he did not choose any of those options. At this point, the April 2008 decision is a final decision and the Board cannot conduct a rehearing or change its decision in that application. There are other options the Board may consider: perhaps a new application for benefits, or as the Ombudsman pointed out, there is a statute that allows the Board to correct its records. Those options may be discussed with the Attorney General attorney assigned to the ASRS. The Board has no jurisdiction to change their April 2008 decision.

Mr. Townsend asked if any Board member wanted to make a motion. No motions were offered, so the agenda item was concluded without granting the request of Mr. Gustafson.

#### **4. Presentation, Discussion and Appropriate Action Regarding the 2009 Legislative Session**

Mr. Klein and Ms. Lesli Sorensen, Government Relations Officer, addressed the Board regarding the 2009 ASRS legislation. Ms. Sorensen gave a general update highlighting bills of interest, and stated there has not been much activity regarding the bills to date, due to the focus on State budget issues. The Governor has passed six bills to date, none of which are ASRS bills.

#### **5. Presentation, Discussion and Appropriate Action Regarding ASRS Fiscal Year 2010, 2011, 2012 Strategic Plan**

Mr. Guarino, Deputy Director and Chief Operations Officer, addressed the Board regarding the ASRS Fiscal Year 2010, 2011, 2012 Strategic Plan. Mr. Guarino highlighted the following six strategic actions of the Plan:

1. Look ahead with clarity of purpose.
2. Measure performance.
3. Maintain good governance policies and structures.
4. Initiate strategic and tactical actions.
5. Invest in the staff.
6. Secure a cost effective operating budget.

Mr. Guarino focused on the first strategic action, stating the IT Plan was the best example of having vision, goals, objectives, values, and principles. When past performance was measured, the ASRS was found to be significantly behind the curve, which led to the IT Plan. The ASRS developed workflows, a call center management system, an imaging system, a budget, and invested in staff to attain the needed developers, business analysts, systems analysts, and project managers.

Mr. Guarino said Ms. Sara Orozco, Strategic Planning Manager, has been updating the Strategic Plan, to keep it relevant. Mr. Guarino presented the following ASRS Executive Priorities:

- Implement and communicate investment plans and actions that take advantage of opportunities to achieve returns equal to or in excess of investment objectives.
- Assure member and stakeholder trust and confidence in the ASRS brand of public administration and benefit plan designs.
- Continue to provide timely, accessible and reliable service by expanding service, self-service options and member satisfaction.
- Maintain an effective operating cost structure and budget.
- Maintain and enhance its risk management programs.
- Retain a staff and staffing structure that reflects ASRS' values and an ethos of consistent high performance.
- Be adaptable to changing circumstances and initiate measures necessary to ensure the overall health and long-term viability of the benefit programs managed by the ASRS.

Mr. Guarino said vendor performance standards and measures have been improved, as have information technology performance measures. Mr. Guarino noted initiatives were included in the Strategic Plan, instead of being tracked separately, an example being the various web services initiatives under Goal 4, "Members will have timely and easy access to information and educational

programs delivered in a variety of methods, including expanded access to web services and self-service opportunities.”

Mr. Zeman said he would like Goal 3, “Ensure that 75% or more of inactive members have a valid address,” to be revised to 90% of inactive members. Ms. Orozco explained the ASRS was just beginning the process of researching inactive members, and doesn’t know if a goal of 90% could be attained right away. Mr. Guarino said the ASRS would endeavor to meet 90%, if possible.

Mr. Zeman would like more detail on the investment goals, as well as seeing the ASRS member surveys on specific issues from time to time. Ms. Orozco remarked that one stated goal is to be a trusted resource for members, noting there was currently a member survey on the ASRS website.

**Motion:** Dr. Keith Meredith moved to accept the ASRS Strategic Plan for Fiscal Years 2010, 2011, and 2012, as noted in the May 15, 2009, ASRS Board meeting, with the understanding that it is an evolving document that can be updated.

Mr. Zeman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

## **6. Presentation, Discussion and Appropriate Action Regarding the RFP for the Medical Plans Insurance Contract**

Mr. Klein addressed the Board regarding the RFP for the Medical Plans Insurance Contract. The ASRS issued a Request for Proposal in early January 2009, for an ASRS (and ADOA) retiree health insurance program. The ASRS will conclude a five-year contract with PacifiCare, a UnitedHealthcare Company, at the end of Calendar Year 2009. Mr. Klein said the ASRS agreed to assist its sister agency, ADOA, to collect and analyze proposals on their behalf. For various reasons, ADOA decided to continue to evaluate their portion of the RFP. Finalist interviews were conducted in late March, and Best and Final Offers were provided on April 9. The Committee evaluated these offers along with each vendor’s initial offer on April 15. The Operations Committee made a recommendation on April 24.

Dr. Meredith asked for a brief summary of events in the healthcare environment. Mr. Klein said the ASRS was fortunate to be able to deliver health benefits to retirees. The healthcare landscape will change in the future due to national proposals, and the ASRS is not sure how that will affect our retirees. The evaluation committee focused on five criteria:

- Quality and value of the provider network
- Quality and value of benefits
- Performance of the provider
- Expertise of the provider
- How the provider delivers the benefit program (method of approach)

Mr. Klein said it was a difficult environment in which to provide healthcare benefits in general, but the ASRS endeavors to provide meaningful benefits to retirees.

Ms. Sigrid Whitman, member of the public, requested the Board retain the current provider, since she has been very satisfied, as a retiree, with their excellent service.

**Motion:** Dr. Meredith moved to approve the recommendation of the Evaluation Committee and Operations Committee to award the contract for the ASRS retiree medical benefits program to be effective January 1, 2010 to Pacificare, a UnitedHealthcare Company.

Mr. Zeman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

**7. Presentation, Discussion and Appropriate Action Regarding the Total Fund Performance Overview for the Quarter Ending 3/31/09**

Mr. Allan Martin, Partner, New England Pension Consultants (NEPC), and Mr. Erik Knutzen, Partner and Chief Investment Officer, NEPC, addressed the Board regarding the Total Fund Performance Overview for the period ending March 31, 2009, highlighting specific areas of interest and concern.

The Total Fund Performance for the period ending March 31, 2009 is:

	Quarter	Fiscal Year-to-Date	1 Year	3 Years	5 Years	10 Years	Since Inception (April-1987)
<b>ASRS Total Fund</b>	<b>-7.8%</b>	<b>-27.2%</b>	<b>-27.9%</b>	<b>-7.8%</b>	<b>-1.2%</b>	<b>1.2%</b>	<b>7.3%</b>
Benchmark*	-8.0%	-28.4%	-29.1%	-7.4%	-1.2%	0.3%	6.8%
Excess Return	0.2%	1.2%	1.2%	-0.4%	0.0%	0.9%	0.5%

\*Interim Benchmark (current): 36% S&P 500, 7% S&P 400, 7% S&P 600, 27% Barclays Capital Aggregate, 19% MSCI ACWI ex-U.S., and 4% NCREIF Property Index + 100 bps (lagged one quarter)

Note: Interim Benchmark incorporates a proration of 2% real estate and 5% private equity

Policy History:

- 7/1/75 – 12/31/79 – 40% S&P 500/60% Barclays Capital Aggregate
- 1/1/80 – 12/31/83 – 50% S&P 500/50% Barclays Capital Aggregate
- 1/1/84 – 12/31/91 – 60% S&P 500/40% Barclays Capital Aggregate
- 1/1/92 – 12/31/94 – 50% S&P 500/40% Barclays Capital Aggregate/10% MSCI EAFE (Net Dividends)
- 1/1/95 – 6/30/97 – 45% S&P 500/40% Barclays Capital Aggregate/15% MSCI EAFE (Net Dividends)
- 7/1/97 – 12/31/99 – 50% S&P 500/35% Barclays Capital Aggregate/15% MSCI EAFE (Net Dividends)
- 1/1/00 – 9/30/03 – 53% S&P 500/30% Barclays Capital Aggregate/17% MSCI EAFE (Net Dividends)
- 10/1/03 – 12/31/06 – 53% S&P 500/26% Barclays Capital Aggregate/15% MSCI EAFE/ACWI ex-U.S. (Net Dividends)<sup>1</sup>/6% NCREIF Property Index + 100 bps (lagged one quarter)
- 1/1/07 – present – 31% S&P 500/7% S&P 400/7% S&P 600/26% Barclays Capital Aggregate/18% MSCI ACWI ex-U.S./6% NCREIF Property Index + 100 bps (lagged one quarter)/5% Russell 3000 + 300 bps

<sup>1</sup>MSCI EAFE/ACWI ex-U.S. Benchmark is the MSCI EAFE (Net Dividends) prior to 10/1/2005 and the MSCI ACWI ex-U.S. (Net Dividends) thereafter

**8. Presentation, Discussion and Appropriate Action Regarding the Non-U.S. Equity Asset Class Managers for the Quarter Ending 3/31/09**

Mr. Martin and Mr. Gary Dokes, Chief Investment Officer, addressed the Board regarding the ASRS Non-U.S. Equity asset class. As of March 31, 2009, the total market value of the ASRS Non-U.S. Equity asset class was \$2.4 billion, or approximately 13% of the ASRS Total Fund. The Non-U.S. Equity asset class policy target is 18% with a range of 8-28%.

For the 12 months ended March 31, 2008, the Non-U.S. Equity Asset Class outperformed the Morgan Stanley Capital International (MSCI) Custom Benchmark by 2.9%. Over the past three years, the Non-U.S. Equity Asset Class has underperformed the MSCI Custom Benchmark by 0.1% annually. Mr. Martin said the ASRS Non-U.S. Equity managers are good

managers, overall. Mr. Martin suggests the ASRS raise exposure to emerging markets as well as to currency.

### **9. Presentation, Discussion, and Appropriate Action Regarding ASRS Asset Allocation Policy Bands**

Mr. Martin and Mr. Dokes addressed the Board regarding the ASRS Asset Allocation Policy Bands. Per the ASRS Strategic Investment Rebalancing Policy, rebalancing activities occur depending upon whether ASRS asset class exposures fall outside or within permitted asset allocation policy bands. If the magnitude of the difference is outside the policy target bands, rebalancing back into policy bands will occur regardless of opportunities for cost reduction. If the magnitude of the difference is within the policy target bands, rebalancing may occur based on the aforementioned asset class relative value discussions.

Broadening the policy bands from +/- 5% to +/- 10% is viewed as tactical and intended to mitigate the effects of the following: 1) not being forced to make rebalancing decisions inconsistent with ASRS relative value perspective, and 2) to provide for the ability to make active relative value asset class shifts within a broader allowable policy range. The modifications to ASRS public market sector asset allocation policy bands are as follows:

- U.S. Fixed Income from 26% (21%-31%) to (16%-36%)
- U.S. Equities from 45% (40%-50%) to (35%-55%)
- Non-U.S. Equities from 18% (13%-23%) to (8%-28%)

**Motion:** Mr. Chris Harris moved to approve the IC recommendation to widen the ASRS public market fixed income, U.S. equity and non-U.S. equity asset allocation policy bands as shown in the exhibit attached to the Board packet.

Mr. Trachtenberg seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

### **10. Presentation, Discussion and Appropriate Action Regarding ASRS Board Elections**

Mr. Michael Townsend addressed the Board regarding Board elections. Pursuant to the ASRS Board Governance Handbook, the ASRS Board was to elect a Board Chair and Vice-chair for Fiscal Year 2009/2010. The new Chair and Vice-chair positions will become effective July 1, 2009, and will continue through June 30, 2010.

**Motion:** Mr. Townsend moved to elect Mr. Byers as Board Chair of the ASRS Board of Trustees.

Mr. Harris seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

**Motion:** Dr. Meredith moved to elect Mr. Connelly as Vice-chair of the ASRS Board of Trustees.

Mr. Zeman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

## 11. Director's Report

Mr. Matson said the ASRS has looked at utilization of its floor space in the 3300 Tower building. Because of downsizing some positions due to recent completion of the IT Plan, approximately one percent more building space was found that could be leased. Almost 96% is leased currently.

Mr. Matson mentioned that the JLBC recently recommended a decrement of positions to this agency. That now looks unintentional and likely not to proceed with the final JLBC recommendation.

Mr. Matson thanked Mr. Zeman and Dr. Meredith for their efforts on the health insurance RFP analysis. He thanked Mr. Zeman and Mr. Connelly for their work on the external actuarial audit, evaluating current vendors for a task order. He also thanked the ASRS Management Support staff for their work supporting recent Investment Committee and back to back Board meetings.

## 12. Possible Presentation Regarding Board Committee Updates

Mr. Jaime Gutierrez, Chair, External Affairs Committee (EAC), said the next EAC meeting will take place June 5, 2009.

Mr. Tom Connelly, Chair, Investment Committee (IC), stated there was an IC meeting May 11, and the next IC meeting will take place July 13. At that time, the IC will review the asset allocation study and the Strategic Plan.

Mr. Dave Byers, Chair, Operations Committee (OC), said there was an OC meeting on May 1, 2009, at which the health benefits RFP was discussed. The next OC meeting will take place June 25, at which risk management will be discussed.

Mr. Harris thanked Mr. Townsend for his service as Board Chair during the past year.

## 13. Board Requests for Agenda Items

There were no requests for agenda items.

## 14. Call to the Public

No members of the public addressed the Board.

**15. The next ASRS Regular Board meeting is scheduled for Friday, July 17, 2009, at 8:30 a.m., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board room, Phoenix, Arizona.**

## 16. Adjournment of the ASRS Board

Mr. Byers adjourned the Board meeting at 11:59 AM.

ARIZONA STATE RETIREMENT SYSTEM

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Lisa Hanneman, Secretary                      Date

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Paul Matson, Director                      Date